

June 28, 2021

Redington (India) Limited: Ratings reaffirmed; Outlook revised to Positive

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,900.0	1,900.0	[ICRA]A1+; reaffirmed
Fund-based - Cash credit	450.0	450.0	[ICRA]AA; reaffirmed; Outlook revised to Positive from Stable
Short-term - Fund-based facilities	1,106.0	1,106.0	[ICRA]A1+; reaffirmed
Short-term Non-fund based	115.0	115.0	[ICRA]A1+; reaffirmed
Long-term/Short-term - Unallocated facilities	79.0	79.0	[ICRA]AA/[ICRA]A1+; reaffirmed; Outlook revised to Positive from Stable
Total	3,650.00	3,650.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action considers ICRA's expectation that the business and financial profile of Redington (India) Limited (REDIL) will continue to remain healthy in FY2022 supported by favourable business profile and strong risk management policies. Lower IT penetration in the country, increasing digitalization and rising needs due to 'work from home' requirements shall support the demand for IT and mobility products. For FY2021, REDIL reported a 10.6% growth in operating income with India revenue growing by 22% and overseas revenue growing by 4% supported by enhanced demand for IT and mobility products across the markets. REDIL's operating and net margins expanded to 2.5% and 1.4% respectively in FY2021 (from 2.2% and 1.0% in FY2020) and cash reserves scaled up to ~Rs. 3,500 crore with marked reduction in its working capital cycle.

The ratings continue to derive comfort from REDIL's strong business profile marked by its leading market position in the information technology (IT) and mobility products segments in India, the Middle East, Turkey and Africa. REDIL's operational profile remains healthy, characterised by presence of strong brands, diversified revenue mix across geographies and products, and a wide distribution network comprising large channel partners catering to the requirements of retail and enterprise customers. Further, the extensive experience of management and robust risk management practices continue to support its business profile. REDIL's strong financial profile is characterised by stable cash accruals, strong liquidity profile marked by large cash balances, improvement in working capital intensity and comfortable debt metrics.

The ratings also consider distributor-specific factors like low operating profit margins and high working capital intensity necessitated by stocking requirements and credit sales. With substantial part of revenues derived from the overseas regions, REDIL's operations remain exposed to geopolitical risks, although the same is largely mitigated by its robust risk management practices.

Key rating drivers and their description

Credit strengths

Leading market position in distribution of IT hardware and mobility products in India, Middle East, Turkey and Africa – REDIL is a distributor of IT and mobility products across the geographies of its operations, namely India, the Middle East, Turkey and Africa. Around 60% and 68% of revenues and profits, respectively were generated from overseas operations in FY2021. Supported by its well-established relationships with OEMs, early mover advantage and a strong distribution network (33,950+ active channel partners, 70+ sales offices, 205+ warehouses), the company is the market leader in the Middle East and Africa. In India, it is a major distributor garnering a significant share of IT distribution business along with M/s Ingram Micro India Private Limited.

Strong financial profile characterised by healthy revenue growth, low gearing, adequate cash balances and comfortable coverage metrics – REDIL's consolidated revenues rose by 10.6% YoY in FY2021 aided by a 22% and 4% growth in revenues from domestic and overseas operations, respectively. With favourable scale, and cost control measures, REDIL's operating and net margins expanded to 2.5% and 1.4% respectively in FY2021 (from 2.2% and 1.0% in FY2020). The company's gearing and TOL/TNW ratio improved to 0.1 times and 1.7 times as on March 31, 2021 (compared to 0.6 times and 2.1 times as on March 31, 2020) due to reduced working capital debt utilization. Adjusted for cash reserves, the net TOL/TNW remained comfortable at 1.1 times. The liquidity position is strong with cash and bank balances of Rs. 3,493.0 crore as on March 2021 supported by improved earnings and better management of working capital cycle. ICRA expects that REDIL will sustain its healthy financial profile following the sustained increase in product offerings and dealer base in India and overseas.

Tie-ups with leading vendors across IT, mobility and electronics space – REDIL has over 200 vendors across domestic and overseas markets. Its key vendors—Apple, HP, Dell, Lenovo and Samsung—collectively contributed to ~63% of revenues in FY2021. The share of Apple among the vendors is the highest at 33% in FY2021, supported by the growth in Apple product sales in India. The well-established relationships with vendors aid REDIL towards favourable credit period, which reduces its working capital intensity. Further, comprehensive contracts with vendors de-risk REDIL from product and technology obsolescence.

Robust credit appraisal and recovery systems which enable tight control over the operations - REDIL has robust internal control and risk management systems that insulate its business from the possible risks of price movement, technological obsolescence, etc. through contractual arrangements with vendors. REDIL maintains strong credit assessment norms and provisioning policies to minimise credit risks. It follows healthy foreign exchange risk mitigation practices such as 100% hedging on exchange rates, which helps minimise foreign currency fluctuation risks.

Credit challenges

Low operating margins; working capital intensive nature of business – Inherent to the nature of distribution business, REDIL's profit margins remain low, with operating and net margins at 2.5% and 1.4%, respectively in FY2021. Going forward, the margins are expected to remain range bound and may expand gradually with the scaling up of the service segments. The company's working capital intensity was traditionally high because of stocking requirements, given its wide reach, scale and credit sales, as inherent in the distribution business. Nevertheless, with tighter control on credit terms and inventory holding, there has been a steady reduction in working capital days in the recent period. The company's ability to operate with lower operating cycle will be critical to sustain or improve its cash flow position.

Exposure to geopolitical risks – With a large share of business generated from overseas operations, REDIL remains exposed to geopolitical risks because of its presence in some countries with a history of political instability. However, REDIL's proactive measures and strong risk management practices led by control on working capital and cost optimisation measures have helped limit the impact to a large extent.

Liquidity position: Strong

The liquidity position is strong with a robust cash and bank balance of Rs. 3,493.0 crore as of March 31, 2021. Steadily improving accruals, moderate capex plans and focus on lower working capital intensity shall support the liquidity profile going forward as well. Moreover, REDIL enjoys strong financial flexibility with lenders resulting in an ability to raise debt at a short notice.

Rating sensitivities

Positive factors – The rating can be upgraded with sustained growth in earnings, improvement in debt coverage indicators and working capital cycle, thus strengthening the financial risk profile. Specified metrics supporting a rating upgrade shall include Core RoCE at above 25% and net TOL/TNW at less than 1.3x on a sustained basis.

Negative factors – Negative pressure on REDIL’s rating could arise in case of a sharp deterioration in profitability, liquidity profile or debt indicators arising from any major debt-funded capital expenditure or acquisitions or large expansion in operating cycle. Key metrics include core RoCE at less than 15% and/or net TOL/TNW at above 2.0x on sustained basis

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Redington (India) Limited; as on March 31, 2021, the company had 60 subsidiaries/associates; of these, three subsidiaries are direct and 56 are step-down subsidiaries/associates, which are enlisted in Annexure-2

About the company

REDIL is a leading distributor of IT and mobility products and a provider of supply chain management solutions and support services in India, the Middle East, Turkey and Africa. REDIL procures IT and mobility products from vendors, handles distribution logistics, sells the same to resellers and dealers. The company has periodically added new products to its portfolio and continues to provide ancillary services like after-sales, third-party logistics through the subsidiary companies. Currently, REDIL has three automated distribution centres (ADCs)—in Chennai, and Kolkata in India, and Dubai.

Key financial indicators (audited)

REDIL (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	51,465.2	56,945.9
PAT (Rs. crore)	533.9	786.6
OPBDIT/OI (%)	2.2%	2.5%
PAT/OI (%)	1.0%	1.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.7
Total Debt/OPBDIT (times)	2.5	0.4
Interest Coverage (times)	3.8	6.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					June 28, 2021	November 06, 2020	November 01, 2019	December 31, 2018	September 17, 2018
1	Commercial Paper	Short Term	1900.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Unallocated facilities	Long Term/Short Term	79.0		[ICRA]AA(Positive)/[ICRA]A1+	[ICRA]AA(Stable)/[ICRA]A1+	[ICRA]AA(Stable)/[ICRA]A1+	[ICRA]AA(Stable) / [ICRA]A1+	[ICRA]AA(Stable) / [ICRA]A1+
3	Fund based facilities	Short Term	1,106.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund based facilities	Long Term	450.0		[ICRA]AA(Positive)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
5	Non-fund based facilities	Short Term	115.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Term – Fund Based/CC	Simple
Short Term Fund Based	Very Simple
Short Term Non - Fund Based	Very Simple
Commercial Paper	Very Simple
LT / ST – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	450.0	[ICRA]AA(Positive)
NA	Fund based facilities	-	-	-	1106.0	[ICRA]A1+
NA	Non-fund-based facilities	-	-	-	115.0	[ICRA]A1+
NA	Unallocated facilities	-	-	-	79.0	[ICRA]AA(Positive)/[ICRA]A1+
-*	Commercial Paper	-	-	7-365 days	1,900.0	[ICRA]A1+

Source: Company *not provided

Annexure-2: List of entities considered for consolidated analysis

Direct Subsidiaries			
Sr no	Name of subsidiary	Ownership (%)	Consolidation Approach
1	ProConnect Supply Chain Solutions Limited	100	Full Consolidation
2	Ensure Support Services (India) Limited*	100	Full Consolidation
3	Redington International Mauritius Limited	100	Full Consolidation
4	Redington Distribution Pte Ltd	100	Full Consolidation
<i>*The subsidiary has been divested w.e.f. July 31, 2020.</i>			
Step-down Subsidiaries			
Sr no	Name of subsidiary	Ownership (%)	Consolidation Approach
1	Redington Gulf FZE	100	Full Consolidation
2	Redington Egypt Ltd (LLC)	100	Full Consolidation
3	Redington Gulf & Co	70	Full Consolidation
4	Redington Kenya Limited	100	Full Consolidation
5	Cadensworth FZE	100	Full Consolidation
6	Redington Middle East LLC	49	Full Consolidation
7	Ensure Services Arabia LLC	100	Full Consolidation
8	Redington Qatar WLL	49	Full Consolidation
9	Ensure Services Bahrain S.P.C.	100	Full Consolidation
10	Redington Qatar Distribution WLL	49	Full Consolidation
11	Redington Limited	100	Full Consolidation
12	Redington Kenya (EPZ) Limited	100	Full Consolidation
13	Redington Uganda Limited	100	Full Consolidation
14	Cadensworth United Arab Emirates LLC	49	Full Consolidation
15	Redington Tanzania Limited	100	Full Consolidation
16	Redington Morocco Ltd	100	Full Consolidation
17	Ensure IT Services (Pty) Ltd.	100	Full Consolidation
18	Redington Gulf FZE Co	100	Full Consolidation
19	Redington Turkey Holdings S.A.R.L.	100	Full Consolidation
20	Arena Bilgisayar Sanayi ve Ticaret A.S.	49.4	Full Consolidation
21	Arena International FZE	49.4	Full Consolidation
22	Redington Bangladesh Limited	99	Full Consolidation
23	Redington SL Private Limited	100	Full Consolidation
24	Redington Rwanda Ltd.	100	Full Consolidation
25	Redington Kazakhstan LLP	100	Full Consolidation
26	Ensure Gulf FZE	100	Full Consolidation
27	Ensure Technical Services (PTY) Ltd.	100	Full Consolidation
28	Ensure Middle East Trading LLC	49	Full Consolidation
29	Ensure Solutions Nigeria Limited	99.90	Full Consolidation
30	Ensure Technical Services Kenya Limited	100	Full Consolidation
31	Ensure Services Uganda Limited	100	Full Consolidation
32	Ensure Technical Services Tanzania Limited	100	Full Consolidation
33	Ensure Ghana Limited	100	Full Consolidation
34	Proconnect Supply Chain Logistics LLC	49	Full Consolidation
35	Ensure Technical Services Morocco Limited (Sarl)	100	Full Consolidation
36	Redington Senegal Limited S.A.R.L.	100	Full Consolidation

37	Redington Saudi Arabia Distribution Company	75	Full Consolidation
38	PayNet Odeme Hizmetleri A.S.	49.4	Full Consolidation
39	CDW International Trading FZCO	100	Full Consolidation
40	RNDC Alliance West Africa Limited	100	Full Consolidation
41	Redington Turkey Teknoloji AS	100	Full Consolidation
42	Ensure Middle East Technology Solutions LLC	49	Full Consolidation
43	Rajprotim Supply Chain Solutions Limited	100	Full Consolidation
44	Proconnect Saudi LLC	100	Full Consolidation
45	Redserv Business Solutions Private Limited	100	Full Consolidation
46	Redington Distribution Company LLC	99	Full Consolidation
47	Citrus Consulting Services FZ LLC	100	Full Consolidation
	Arena Mobile Iletisim Hizmetleri ve Turketici	49.4	Full Consolidation
48	Elektronigi Sanayi ve Ticaret A.S.		
49	Online Elektronik Ticaret Hizmetleri A.S.	49.4	Full Consolidation
50	Paynet (Kibris) Odeme Hizmetleri Limited	49.4	Full Consolidation
51	Ensure Services Limited	99	Full Consolidation
52	Redington Cote d'Ivoire SARL	100	Full Consolidation
53	Africa Joint Technical Services	65	Full Consolidation
54	Redington Angola Ltd.	100	Full Consolidation
55	Redington Saudi Arabia (for trading)	100	Full Consolidation

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